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Charles Darwin University

Final Examination

Family Name					
Given Name/s					
Student Number					
Teaching Period	Semester 1, 2019				

ACT507 – Accounting for Managers	DURATION	
	Reading Time:	10 minutes
	Writing Time:	180 minutes
INSTRUCTIONS TO CANDIDATES		
<ol style="list-style-type: none"> 1. Write all answers in the Examination Answer Booklet provided. 2. This examination comprises four questions. 3. Marks for each question are not of equal value. Students are to answer all questions. 4. This examination is worth 60% of your final mark. 5. Start each question on a new page. 6. Show all calculations, narrations, and workings. 		
EXAM CONDITIONS		
<p><u>You may begin writing from the commencement of the examination session.</u> The reading time indicated above is provided as a guide only.</p>		
This is a RESTRICTED OPEN BOOK examination		
Any non-programmable calculator is permitted		
No handwritten notes are permitted		
Hard copy, unannotated English translation dictionary only		
ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED	

Relevant Legislation (Unannotated)	1 x 20 Page Book 1 x Scrap Paper
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**THIS EXAMINATION IS PRINTED
DOUBLE-SIDED.**

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LEFT BLANK.**

Suggested time allocation: 45 Minutes

The bank portion of the bank reconciliation for Lordline Limited as at 31 May 2020 was as follows.

Lordline Limited

Bank Reconciliation

As at the 31 May 2020

Cash Balance per bank	\$18,790.00
Add: Outstanding deposits	<u>1,633.60</u>
	20,423.60

Less: Un-presented Cheques

<u>Cheque number</u>	<u>Cheque Amount</u>	
2451	\$1,260.40	
2470	730	
2471	945.6	
2472	503.6	
2474	<u>1,050.00</u>	<u>4,489.60</u>
Adjusted cash balance per bank agreed with the cash balance per the books		<u>\$15,934.00</u>

The June 2020 bank statement showed the following cheques and deposits:

Withdrawals

<u>Date</u>	<u>Cheque number</u>	<u>Amount \$</u>
1-Jun	2470	730.00
2-Jun	2471	945.60
5-Jun	2474	1,050.00
4-Jun	2475	1,640.70
8-Jun	2476	2,830.00
10-Jun	2477	600.00
15-Jun	2479	1,750.00
18-Jun	2480	1,330.00
18 Jun	cheque book charge	80.00
27-Jun	2481	695.40
30-Jun	2483	575.50
29-Jun	2486	<u>900.00</u>
Total		<u>13,127.20</u>

Deposits

<u>Date</u>	<u>Amount \$</u>
1-Jun cheque	1,633.60
4-Jun cheque	1,211.60
8-Jun cheque	990.1
13-Jun cheque	2,575.00
18-Jun cheque	1,472.70
21-Jun cheque	2,945.00
22 Jun direct debit	1,505.00
25-Jun cheque	2,567.30
28-Jun cheque	1,650.00
30-Jun cheque	<u>1,186.00</u>
Total	17,736.30

The records per books for June 2020 showed the following.

Cash Receipt Journal

<u>Date</u>	<u>Amount \$</u>
3-Jun	1,211.60
7-Jun	990.1
12-Jun	2,575.00
17-Jun	1,472.70
20-Jun	2,945.00
24-Jun	2,567.30
27-Jun	1,650.00
29-Jun	1,186.00
30-Jun	<u>1,338.00</u>
Total	<u>15,935.70</u>

Cash Payment Journal

<u>Date</u>	<u>Cheque number</u>	<u>Amount \$</u>
1-Jun	2475	1,640.70
2-Jun	2476	2,830.00
2-Jun	2477	600.00
4-Jun	2478	800.00
8-Jun	2479	1,750.00
10-Jun	2480	1,330.00
15-Jun	2481	695.40
18-Jun	2482	566.00
20-Jun	2483	575.50
22-Jun	2484	850.20
23-Jun	2485	952.80
24-Jun	2486	900.00
29-Jun	2487	388.70
30-Jun	2488	<u>1373.30</u>
Total		<u>15,252.60</u>

Additional information:

- i. The credit of \$1,505.00 shown on the bank statement was for the collection of a \$1,400.00 note for Lord Limited plus interest of \$120.00 and less a collection fee for \$15.00. Lordline Limited has not accrued any interest on the note.
- ii. The Bank did not make any errors; two errors were made in Lord-line Limited.
- iii. On 30 June, the cash balance per books was \$16,806.10.

Required:

- (a) Calculate and show the as at 30 June 2020, the cash balance per the bank statement. (3 Marks)
- (b) Prepare the bank reconciliation as at 30 June 2020. (9 Marks)
- (c) As at 30 June 2020, compute and prepare the adjusted bank balance starting from the book balance. (5 Marks)
- (d) Prepare the adjusting entries based on the reconciliation. (Hint: The correction of any errors pertaining to recording cheques should be made to Accounts Payable. The correction of any errors relating to recording cash receipts should be made to Accounts Receivable). (8 Marks)

Question 2

Total: 30 Marks

Presented below is the statement of financial position for Lordtop Ltd as at 30 June 2020 with 30 June 2019.

Lordtop Ltd
Statement of Financial Position as at 30 June

<u>Assets</u>	2020 \$	2019 \$
Cash	234,600	74,600
Accounts Receivable	127,200	111,300
Inventory	275,000	221,200
Prepaid Expenses	22,800	23,000
Land	238,000	199,000
Building	639,000	339,000
Accumulated Depreciation-Building	-111,400	-97,600
Equipment	361,200	331,200
Accumulated Depreciation - Equipment	<u>-89,900</u>	<u>-67,000</u>
	1,696,500	1,134,700
<u>Liabilities and Shareholders' Equity</u>		
Accounts Payable	215,000	218,000
Accrued Expense Payable	10,500	14,000
Income Tax Payable	26,000	24,000
Bond Payable	590,000	350,000
Share Capital	588,100	388,100
Retained Earnings	<u>266,900</u>	<u>140,600</u>
	1,696,500	1,134,700

Examination of the company's income statement and general ledger accounts for the year ending 30 June 2020 disclosed the following:

1. Net Sales for the period were \$1,100 000; Cost of Sales amounted to \$650,000; Other Expenses (excluding depreciation) amounted to \$160,000
2. Income tax expense for the year amounted to \$117,000
3. 50,000 shares were issued at \$4.00
4. Bonds of \$150,000 were issued for cash
5. An extension was added to the building at the cost of \$300,000 cash
6. In January 2020 the company declared and in April 2020 paid \$70,000 cash dividend
7. Vacant land next to the company's plant was purchased for \$129,000 with payment consisting of \$39,000 cash and a bond payable for \$90,000
8. Land with a carrying amount of \$90,000 was sold for \$150,000
9. Equipment costing \$30,000 was purchased for cash.

Required

Prepare a statement of cash flows for Lordtop Ltd for the year ended 30 June 2020 using the direct method as follows:

- a) Cash flows from operating activities (4 Marks)
 - i. Cash receipts from customers
 - ii. Cash payments to suppliers
 - iii. Cash payments for expenses
 - iv. Cash payments for income taxes

- b) Cash flows from investing activities (4 Marks)
 - i. Purchase of equipment
 - ii. Purchase of land
 - iii. Purchase of building
 - iv. Proceeds from sale of land

- c) Cash flows from financing activities (3 Marks)
 - i. Proceeds from issue of shares
 - ii. Proceeds from bond borrowings
 - iii. Payments of dividends

- d) Cash flows reconciliation from beginning period to end period (3 Marks)
 - i. Net increase/decrease in cash and cash equivalents
 - ii. Cash at the beginning of the period
 - iii. Cash at the end of the period

- e) Workings:
 - i. Cash received from customers (3 Marks)
 - ii. Cash paid to suppliers (5 Marks)
 - iii. Cash paid for services (5 Marks)
 - iv. Cash paid for taxes (3 Marks)

Question 3

20 Marks

Suggested time allocation: 36 Minutes

On 10 June 2020, Lord-fine Company purchased \$10,000 of merchandise from Elizer Company, FOB shipping point, terms 2/10, n/30. The merchandise purchased by Lord-fine Company costs Elizer Company \$6,000. On 11 June 2020, Lord-fine Company pays freight costs of \$200. On 12 June 2020, damaged goods totalling \$400 are returned to Elizer Company for credit. The fair value of the damaged goods returned are \$240. On 19 June 2020, Lord-fine Company settles the full payment due to the Elizer Company. Both companies use a perpetual inventory system.

Required:

- a) Prepare separate entries for each transaction on the books of Lord-fine Company
 - i. On 10 June 2020 (2 Marks)
 - ii. On 11 June 2020 (2 Marks)
 - iii. On 12 June 2020 (2 Marks)
 - iv. On 19 June 2020 (3 Marks)
- b) Prepare separate entries for each transaction on the books of Elizer Company
 - i. On 10 June 2020 (4 Marks)
 - ii. On 12 June 2020 (4 Marks)
 - iii. On 19 June 2020 (3 Marks)

Question 4

Total: 25Marks

Suggested time allocation: 45 Minutes

The comparative statements of Lord-lord Limited are presented below.

Lord-lord Limited

Balance Sheet as at 30 June (All figures are in \$)

	2020	2019	2018
Cash	27,500	22,000	19,800
Accounts receivable (net)	55,000	49,500	52,800
Inventory	33,000	30,000	30,400
Other current assets	66,000	74,500	40,000
Long term Investments	82,500	77,000	49,500
Plant and equipment (net)	440,000	407,000	393,800
<i>Total assets</i>	<i>704,000</i>	<i>660,000</i>	<i>586,300</i>
Current liabilities	82,500	88,000	77,000
Long term debt	88,000	93,500	55,000
Common stock / Ordinary shares \$10 par	374,000	341,000	330,000
Retained earnings	159,500	137,500	124,300
<i>Total liabilities and shareholders equity</i>	<i>704,000</i>	<i>660,000</i>	<i>586,300</i>

Lord-lord Limited

The income statement for the year ended 30 June (All figures are in \$)

	2020	2019
Sales revenue	814,000	770,000
Less, sales returns and allowances	44,000	55,000
Net sales	770,000	715,000
Cost of goods sold	462,000	440,000
Gross profit	308,000	275,000
Operating expenses including income taxes	175,000	180,000
Interest expense	25,000	20,000
income tax expense	58,500	42,000
Net income	49,500	33,000

Additional information:

- The market price of Landlord Limited shares was \$4.00, \$5.00, and \$8.00 for 2018, 2019, and 2020 respectively.
- The share of credit sales for 2018, 2019, and 2020 were 20%, 22%, and 24% of total sales for the year, respectively.
- All dividends were paid in cash. In 2018, 2019, and 2020, 10 cents per share dividend was declared and paid in the same year.

Keys to following ratios are provided below.

- Profit margin = net income / net sales
- Assets turnover = net sales/ average total assets
- Inventory turnover = cost of goods sold / average inventory
- Return on assets = net income / average total assets
- Return on ordinary shareholders equity = net income – preferred dividends / average common stockholders' equity
- Earnings per share = net income – preferred dividends / weighted average common stocks/ shares outstanding

Required:

- Calculate the above ratios for 2020 year (12 Marks)
- Identify the relevant ratios, and comparing 2020 and 2019 years, interpret the profitability position using each ratio (12 Marks)
- State the overall conclusion of the profitability position with reasons (1 Marks)